OPENING REMARKS OF CONGRESSMAN RUBÉN HINOJOSA
HOUSE FINANCIAL SERVICES COMMITTEE
SUBCOMMITTEE ON OVERSIGHT & INVESTIGATIONS
MARCH 18, 2003

Chairwoman Kelly and Ranking Member Gutierrez,

I commend you for holding this important hearing on the President's tax plan and how it will affect our capital and consumer markets.

Shortly after learning of the President's tax proposal, I began researching its ability to stimulate our economy and the impact it would have on individual communities. In conducting this research, I have become extremely concerned by the President's proposal to eliminate the taxation on individual dividends. It appears to have very dire consequences.

This hearing is also timely because it is being held right before the House takes up the Budget Resolution and when the U.S. is on the brink of war with Iraq. It also falls one week before the President intends to ask the U.S. Congress for $70 to $100 billion in emergency spending to pay for the coming war and occupation of Iraq. The price for this war and its aftermath could increase dramatically over time.

This additional spending will not be reflected on the U.S. books because its potential cost was left out of the President's proposed budget. However, in reality, it does increase the President's $726 billion so-called "stimulus" plan, thus bringing the actual total cost of the President's budget to the American public to approximately $800 billion or more.

Of that amount of the economic stimulus, $396 billion would come from the elimination of the taxation on individual dividends as well as taxes from capital gains from retained earnings. The elimination of such taxation would have dire consequences on the U.S. economy in general, and on my community in particular.

President Bush's proposed tax cuts come at a time when we have record deficits. Instead of proposing ineffective tax cuts that disproportionately benefit high-income families, we should be finding ways to balance our budget, return to a surplus and fortify our economy with sound practices to increase consumer confidence. All this proposal does is create a false illusion of economic security; it offers no real solution to our economic crisis.

I cannot emphasize enough how important it is to dissect and closely examine all the ramifications of the President's dividend proposal. We must analyze it carefully. It results in the transfer of investment capital from the municipal bond market to the capital markets.

At a time when our states, communities and localities are in dire straits, President Bush's proposal would transfer money away from them and give it to the highest-income families – the top 1% of the U.S. population.

Money that could be used to build new schools, hire new teachers, improve our infrastructure and strengthen homeland security will go instead to private corporations. Moreover, President Bush's budget would have a devastating impact on affordable housing. A study prepared by Ernst & Young estimates that the President's proposal would result in 40,000 fewer apartments serving about 100,000 residents being produced annually. It showed that the corporate Housing Credit investors would limit the amount of capital they invest in housing credits or lower the price they are willing to pay for them, thus reducing the amount of the Housing Credit equity available to produce affordable rental housing. Consequently, the dividends exclusion proposal would reduce the value of tax credits like the Low Income Housing Tax Credit (LIHTC).

In response to questions I submitted to him in writing after last month's Humphrey Hawkins hearing, Federal Reserve Board Chairman Alan Greenspan warned that if the dividend tax proposal becomes law, Congress would need to monitor whether the funding for low-income housing tax credit programs remained at desired levels. He went on to stress that Congress might need to adjust the structure of the programs to offset declines in the sources of funding if President Bush's proposal is enacted.

Overall, the President's dividend tax proposal seems to be a very ill-advised proposition at a time when our communities are suffering from state and federal deficits and underfunded federal programs. Only wealthy private corporations would benefit from it, while poor and middle class families in my district and across the country would continue their struggle to survive as their school programs and other programs are cut to benefit the wealthiest 1% of the U.S. population.